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PRINCIPAL AREAS
OF THE WORLD

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no rush

January 19, 1973

AUDITORS' REPORT TO THE SHAREHOLDER

*CanCorp
Lp*

We have examined the consolidated balance sheet of Philco Corporation of Canada, Limited and Consolidated Subsidiary as at December 31, 1972 and the consolidated statements of income, retained earnings and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of Philco Corporation of Canada, Limited and Consolidated Subsidiary for the year ended December 31, 1971.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1972 and 1971 and the results of their operations and the source and use of their working capital for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

PHILCO CORPORATION OF CANADA, LIMITED

AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 1972 AND 1971

A S S E T S

	1972	1971
CURRENT ASSETS		
Cash	\$ 2,705,342	\$ 3,074,826
Receivables (including amounts due from affiliated companies of \$879,873; 1971 - \$837,266)	6,838,956	8,145,389
Inventories (note 2)	13,711,821	8,949,599
Income taxes allocable to the following year	898,182	807,500
Prepaid expenses	47,259	70,794
Total current assets	24,201,560	21,048,108
INCOME TAXES ALLOCABLE TO FUTURE YEARS	12,262	45,411
NET PROPERTY, PLANT AND EQUIPMENT (note 3)	4,694,674	4,460,541
Total assets	\$28,908,496	\$25,554,060

L I A B I L I T I E S A N D S H A R E H O L D E R ' S E Q U I T Y

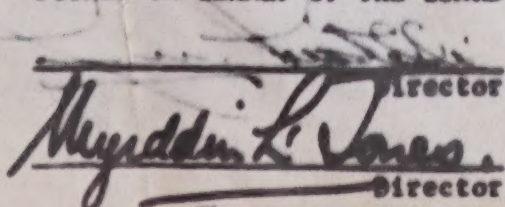
CURRENT LIABILITIES

Accounts payable and accrued liabilities (including amounts due to affiliated companies of \$1,434,379; 1971 - \$1,073,665)	\$ 5,445,847	\$ 4,542,000
Income and other taxes payable	1,400,213	1,317,361
Bank loans	9,000,000	10,500,000
Loans from affiliated companies	5,000,000	2,000,000
Long-term debt payable within one year	36,918	36,152
Excess of progress billings over contract costs (note 2)	-	392,403
Total current liabilities	20,882,978	18,787,916
LONG-TERM DEBT (note 4)	2,001,185	2,686,753
Total liabilities	22,884,163	21,474,669

SHAREHOLDER'S EQUITY

Capital stock - Authorized - 5,000 shares with a par value of \$100		
Issued and fully paid - 4,100 shares	410,000	410,000
Retained earnings	5,614,333	3,669,391
Total shareholder's equity	6,024,333	4,079,391
Total liabilities and shareholder's equity	\$28,908,496	\$25,554,060


SIGNED ON BEHALF OF THE BOARD


Director

The accompanying notes are part of the financial statements.

PHILCO CORPORATION OF CANADA, LIMITED
AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
BALANCE, JANUARY 1	\$3,669,391	\$2,439,540
 Net income	 <u>1,944,942</u>	 <u>1,229,851</u>
 BALANCE, DECEMBER 31	 <u>\$5,614,333</u>	 <u>\$3,669,391</u>



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PHILCO CORPORATION OF CANADA, LIMITED
AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
SALES	<u>\$43,585,744</u>	<u>\$36,327,272</u>
OPERATING COSTS		
Costs, excluding items listed below	38,313,305	32,921,200
Depreciation	793,374	631,098
Special tools expense	<u>84,879</u>	<u>79,232</u>
	<u>39,191,558</u>	<u>33,631,530</u>
OPERATING INCOME	4,394,186	2,695,742
OTHER INCOME AND (EXPENSE)		
Revaluation of foreign currency accounts	48,649	48,476
Interest expense -		
Short-term debt	(731,382)	(720,248)
Long-term debt	(134,760)	(165,087)
Interest income	41,311	41,147
Miscellaneous income - net	<u>17,771</u>	<u>54,930</u>
	<u>(758,411)</u>	<u>(740,782)</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	3,635,775	1,954,960
INCOME TAXES (note 5)	<u>1,690,833</u>	<u>902,567</u>
NET INCOME BEFORE EXTRAORDINARY ITEM	<u>1,944,942</u>	<u>1,052,393</u>
EXTRAORDINARY ITEM		
Deferred tax benefit arising from prior years' loss carry-forwards	<u>-</u>	<u>177,458</u>
NET INCOME	<u>\$ 1,944,942</u>	<u>\$ 1,229,851</u>

The accompanying notes are part of the financial statements.

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AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED STATEMENTS OF SOURCE AND USE OF WORKING CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
SOURCE OF WORKING CAPITAL		
Net income	\$1,944,942	\$1,229,851
Charges to income which did not affect working capital -		
Depreciation	793,374	631,098
Deferred taxes	<u>33,149</u>	<u>118,966</u>
Provided from operations	<u>2,771,465</u>	<u>1,979,915</u>
USE OF WORKING CAPITAL		
Additions to -		
Property, plant and equipment - net	1,027,507	1,653,834
Decrease in long-term debt	<u>685,568</u>	<u>576,691</u>
	<u>1,713,075</u>	<u>2,230,525</u>
INCREASE (DECREASE) IN WORKING CAPITAL	1,058,390	(250,610)
WORKING CAPITAL - BEGINNING OF YEAR	<u>2,260,192</u>	<u>2,510,802</u>
WORKING CAPITAL - END OF YEAR	<u>\$3,318,582</u>	<u>\$2,260,192</u>

The accompanying notes are part of the financial statements.

AND CONSOLIDATED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Philco-Ford of Canada Limited.

2. INVENTORIES

Inventories are stated at lower of cost or market. Cost is determined principally on the first-in, first-out basis. Inventories consist of the following:

	1972	1971
Commercial -		
Finished goods	\$ 8,669,269	\$4,971,157
Raw material and work in process	4,288,145	3,070,820
Parts and accessories	728,864	706,452
Sundry	25,543	201,175
	<u>\$13,711,821</u>	<u>\$8,949,599</u>
Defence contracts -		
Costs to date	-	\$1,262,597
Less: Progress payments billed	-	<u>1,655,000</u>
	<u>-</u>	<u>\$ (392,403)</u>

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stated at cost are summarized as follows:

	1972	1971
Land	\$ 503,922	\$ 503,922
Land improvements	77,219	77,219
Buildings and unamortized leasehold improvements	1,687,320	1,687,235
Machinery, equipment and office furniture	5,470,520	4,738,900
Construction in progress	17,634	4,433
	<u>7,756,615</u>	<u>7,011,709</u>
Less: Accumulated depreciation	<u>3,061,941</u>	<u>2,551,168</u>
Total	<u>\$4,694,674</u>	<u>\$4,460,541</u>

PHILCO CORPORATION OF CANADA, LIMITED

AND CONSOLIDATED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. LEASE COMMITMENTS

The subsidiary is lessee under leases relating to real estate expiring at various dates during the next four years. The current aggregate annual rental under such leases approximates \$97,000.

7. REMUNERATION OF DIRECTORS AND OFFICERS

In accordance with the requirements of the Canada Corporations Act, the following information is provided for the year 1972:

	1972	1971
Number of directors	4	5
Aggregate remuneration as directors	NIL	NIL
Number of officers	6	6
Aggregate remuneration as officers	\$123,397	\$92,35
Number of officers who are also directors	2	4

AND CONSOLIDATED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Allowances for depreciation of fixed assets with the exception of leasehold improvements and equipment leased are provided on the declining balance method by charges to expense sufficient to write off the costs of the assets over their estimated useful lives. Leasehold improvements and equipment leased are amortized over the period of the leases. The cost of special tools is written off in the year of purchase because of the comparatively short useful lives of these tools.

4. LONG-TERM DEBT

Long-term debt, excluding amounts payable within one year, is as follows:

	1972	1971
*4 3/4% debentures payable \$25,000 annually May 15, 1974 to 1977; balance due May 15, 1978	\$ 375,000	\$ 400,000
*4% debentures payable \$16,000 December 1, 1978 and 1979; balance due December 1, 1980	200,000	200,000
6 3/4% mortgage payable \$1,145 (principal and interest) monthly to July 1, 1975; balance due July 1, 1975	20,780	32,699
5 1/2% notes payable to parent company (U.S. \$1,300,000; 1971 - U.S. \$1,900,000)	<u>1,405,405</u>	<u>2,054,054</u>
	<u>\$2,001,185</u>	<u>\$2,686,753</u>

*A general pledge of all of the assets of the subsidiary is collateral for the debentures.

5. INCOME TAXES

The provision for income taxes consists of the following:

	1972	1971
Taxes currently payable	\$1,804,330	\$900,754
Provision for deferred taxes	(57,533)	(175,645)
Adjustment applicable to prior year	(55,964)	-
Utilization of deferred tax benefit arising from prior years' loss carry-forwards	<u>-</u>	<u>177,458</u>
	<u>\$1,690,833</u>	<u>\$902,567</u>

